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SENSITIVE

SIPDIS

STATE FOR EUR/NB, INR-B
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TREASURY FOR LAWRENCE NORTON AND ERIC MEYER

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SUBJECT: ICELAND: PROTESTS CONTINUE; WILL SOCIAL DEMOCRATS STAY IN GOVERNMENT?

Ref: Reykjavik 012

11. (SBU) Summary: Anti-government protests in Reykjavik continued on the evening of January 21 and again on January 22, including a violent encounter that left one police officer hospitalized and many Icelanders profoundly shocked. There were no surprises in the Althingi's day-long debate January 22 on the economic situation, but jockeying within and between the coalition parties is intense. Most eyes are on the Foreign Minister's Social Democratic Alliance, where calls to get out of the government as soon as possible are increasing. Despite the Prime Minister's claims to the media that FM Gisladottir is still pledging her support for the coalition, many expect a statement from Gisladottir on January 22 to clarify her party's position and possibly signal an exit. Should the government collapse, the public's anti-incumbent mood does not offer many clues as to what type of government might result from early elections. End summary.

12. (U) The anti-government protests of January 21 (reftel) continued well into the night in Reykjavik, with protestors moving between the Althingi (parliament) building, the Prime Minister's Office, and the National Theater (where the Social Democratic Alliance's Reykjavik Chapter was meeting) at various points throughout the night. After bursting into the SDA meeting, departing, and cheering the chapter's adoption of a resolution calling for new parliamentary elections immediately, the demonstrators moved to the Prime Minister's Office. At some point, paving stones were thrown at police. One officer required hospitalization for head injuries, while six others had to seek medical attention but were released. No arrests were made, though police used tear gas and succeeded in clearing the square in the early hours of the morning.

13. (U) The public was shocked by the assault on police, and some leaders of the protest movement have joined in condemning such actions. Of note, an interest group on the social networking website Facebook (NOTE: By some estimates nearly 50 percent of Iceland's population uses the service. END NOTE.) condemning violent political protests in Iceland has grown to nearly 10,000 members in the last two days, larger than several of the Icelandic protest groups listed on the service. While protests continued outside the Althingi on January 22, they were peaceful, considerably smaller in number, and marked in some cases by demonstrators offering police hot chocolate and flowers.

14. (U) After the sudden cancellation the day before, the Althingi resumed its session on January 22, devoting the full day to discussion of the economic situation. Prime Minister Haarde (Independence Party) opened with a report on government actions

taken to date and planned for the near future, highlighting assistance to consumers faced with credit problems, plans to increase transparency and regulatory control in the finance sector, and efforts to cushion the blow to consumers of the expected 10 percent contraction in GDP this year. Opposition leaders were predictably critical, with Left-Green Leader Steingrímur Sigfússon calling government measures inadequate and describing the corrosive effects mass unemployment will bring to Icelandic society. He renewed his party's call for immediate elections.

15. (SBU) The real political action, however, has been outside the Althingi, as the Independence Party (IP) and Social Democratic Alliance (SDA) wrestle internally and with each other over the fate of their coalition. PM Haarde reported to the media on the evening of January 21 that he had called SDA Chair and Foreign Minister Ingibjörg Solrun Gísladóttir at her hospital room in Sweden, and claimed that she pledged to continue her party's support for the coalition. However, there are a number of indications that Haarde may have overstated Gísladóttir's level of support. SDA contacts at all levels tell Embos that the party's rank and file and most of its members of parliament want out of the coalition as soon as possible. One prominent SDA mayor in northern Iceland, a longtime ally of Gísladóttir, went so far as to send the FM a cell phone text message -- inadvertently sent to the wrong number and leaked to the media -- urging her to speak for herself and look at breaking with the IP.

16. (SBU) Gísladóttir is expected to issue a statement on January 22 to clarify her stance and that of her party. Few of post's SDA contacts claim to know what she will say, despite their hopes that she will announce an end to the coalition and either explore a minority government with the Left-Greens or call for new elections. Gísladóttir is expected to return from medical treatment in Sweden

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on January 23, but will again be admitted to hospital upon arrival in Iceland. Her public role (and presumably her ability to direct her party's moves) will be limited for some time. In any event, the rest of the SDA leadership is positioning themselves for bigger changes, calling for a party board meeting on February 14 to pave the way for a subsequent national party congress. Such a congress could then set the platform for parliamentary elections, elect new leadership should Gísladóttir's health prevent her from continuing as chair, or endorse other moves by the party depending on events in the next few weeks.

17. (SBU) COMMENT: The political situation is opaque and few here claim to have a handle on what is in train. For all their noise, the demonstrators have not coalesced around any policy prescriptions or a clear party preference. The only common message is one of "throw the bums out." In terms of the immediate survival of the coalition government, much depends on SDA Chair Gísladóttir. With the Prime Minister apparently determined to hang on at least until his party's national congress at the end of the month, Gísladóttir is in position to make or break the government. If she can exercise her power, that is. Whether her health will allow her to play a real role over the coming days is perhaps the central question in Icelandic politics.

VAN VOORST